AN INVESTIGATION OF THE FACTORS AFFECTING THE ADOPTION OF AGENCY BANKING IN KENYA

(A CASE OF SELECTED AGENTS IN NYERI CENTRAL DISTRICT)

BY

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D53/01/14711/2009

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF BUSINESS AS A PARTIAL FULFILLMENT OF THE REQUIREMENT OF THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF KENYATTA UNIVERSITY (MARKETING MANAGEMENT OPTION)
DECLARATION

This project is my original work and has not been presented for a degree in any other university or for any other award.

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DEDICATION

This project is dedicated to my loving wife and family for their never ending encouragement, support and love during the entire study period.

Special dedication to my dad, Nicasio Gichuki and mum, Leah Wanjiku who dutifully encouraged me to further my education and worked tirelessly to make sure I achieved the best education.
ACKNOWLEDGEMENT

There are a number of people whom I would like to acknowledge their contribution during the preparation of this proposal. First of all I would like to extend my sincere thanks to Ms Anne Wambui Muchemi, my supervisor, who has been an immense source of inspiration and support. Her unwavering support and encouragement has truly been a strong force during the whole study period. I would also like to acknowledge Robert Mogere for his relentless support when I was doing corrections of the proposal. Finally, I wish to thank my family, who has stood by my side through their financial and moral support.
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ABSTRACT

Agency banking is a recent model that hopes to enhance access to financial services by allowing small scale business operators to be engaged in banking services as satellite branched. This was largely as a result of pressure experienced by commercial banks to reduce operational costs while at the same time provides increasing returns to the shareholders. The purpose of the study was to assess the major factors affecting the adoption of agency banking in Nyeri Central District of Nyeri County. In particular, the specific objectives examined how relative advantage of the agency banking, complexity of the agency processes, personal factors and levels of public awareness influenced the adoption of the agency banking. Both primary and secondary data was compiled and linked to the specified objectives of the study. Stratified random sampling techniques were used to obtain a working sample of 40 agency units operating in the central Business District of Nyeri Town. Focus was the Equity Bank, KCB and Cooperative Banks which licenced agency operators under their banks. The study found that relative advantage of the agency banking transactions was a significant factor which affected the adoption of the agency banking. This was supported by the benefits of availability of services in various points around the Nyeri Town, convenience and accessibility by the customers. In addition, the agency services were within the reach (Affordable) to most people viewed it as relatively complex and hence sustained sensitization was necessary. In the areas of personal factors, the age factor of the agency users, social class and educational levels were found to have a significant influence on the rate adoption of the agency. In respect to the levels of public awareness, the study found that this aspect to a great extent influenced the rate at which the agency banking was being adopted in the market. The study concludes by pointing out that agencies relative advantage compared to the traditional banking system, personal factors and levels of public awareness to a great extent influenced the adoption rate of the agency banking. The recommendations include that the marketing staff of the commercial banks focuses their attention to population centres such as the schools, colleges, government institutions and attending other forums to popularize the service. Another recommendation is that the commercial banks should increase the commission payable to the agents in return for their added tasks of popularising and marketing the agency service and the banks should encourage large scale traders like wholesales like wholesalers and supermarkets to open a counter for agency banking. This would attract the attention of those engaged in frequent money transfer transactions such as the traders. Also more awareness campaigns and forums be prepared and funded to cater for those market segments not currently served by the agency services. Finally, bank should encourage big institutions such as colleges, hospitals, schools and market to open agency banking services.
CHAPTER ONE

1.0 Introduction

1.1 Background to Study

Marketers have spent considerable effort understanding processes governing consumers' adoption of new products. An assessment of the factors that determine new product adoption is important because developing these products is costly, products' life cycles are short, and competition among firms is fierce. Paxton and Roedder (1997) define really new products as innovations that defy straightforward classification in terms of existing product categories, and thus create a new product category rather than reallocate shares within the existing categories. New products, however, are new models or brands in existing categories.

According to Rogers (1995) adoption of new products can be explained by the five attributes of an innovation: relative advantage, compatibility, complexity, trialability and observability. Ostlund (1974) added another attribute, the perceived risk of an innovation. The academic literature is filled with debate on whether product innovativeness positively impacts new product adoption because of increasing competitive advantage, or negatively impacts adoption due to consumers' fears of novel technology (such as performance and safety) and resultant resistance to adopt (Rogers 1995).

Consumers are faced with uncertainty when predicting the value of new products. This risk and uncertainty have also been widely documented as barriers to adoption of new products. (Castano, 2008). Castano further states that primary the reasons for adopting a new product are that it confers functional and symbolic value, but there is uncertainty that surrounds these value estimates. He identifies performance uncertainty (the uncertainty related to estimating the expected utility of the product) as the main uncertainty associated with the benefits of adoption. Symbolic uncertainty, particularly the symbolic values of self-esteem and status conferred by adopting something “new,” is also related to the benefits of adoption (Fournier 1998).

The principal deterrents to new product adoption are the costs, especially the learning costs, associated with moving to the new product and the psychological pain of forgoing the familiar. Castano (2008) identifies switching costs uncertainty as the uncertainty
associated with learning the steps to effectively use the innovation and argues that switching cost uncertainty is the primary deterrent to the adoption of new products.

In a recent article in the Business Daily titled “agency banking runs into hurdles in Kenya” Kinyanjui (2011) quotes a CEO of one of the banks having agents in Kenya admitting that the bank was facing problems converting these outlets into what the bank would be comfortable to call outsourced banks. The agency selection criteria was showing some weaknesses, and were now re-organising demand of agents in order to favour cash heavy operations in order to meet this demand. Banker (2011), states that banks must address the challenges that are posed by having agency banking while at the same time taking advantage of all the benefits of having this channel of banking. Agency Banking may eventually lead to financial inclusion in the countries where it has been adopted.

This project intends to bridge these important information gaps by investigating a number of personal, situational and product factors that may particularly affect adoption agent banking services. Firstly, the adoption intention of a new product is predicted to differ systematically between consumers with varying level of product knowledge, consumer innovativeness and perceived newness. Secondly, really new products or services promise greater benefits (i.e. desirability) than incrementally new products or services, but consumers are uncertain of the utility of those benefits and anticipate that they will have to change their behaviour to attain potential benefits (Hoeffler 2003). In deciding to adopt a new product or service, individuals often construct arguments in favour of the action as well as arguments against the action. Such arguments may be made a short time or a long time before actually performing the action as well. What is perhaps under-emphasized in the new product/service adoption literature is how time may systematically influence how individuals value the worth of losses and gains in a new product/service evaluation context.

1.1.1 Agent Banking in Nyeri Central District
1.1.2 History of Agent Banking.
Agent banking or banking agents existed long before, we as Kenyans ever thought about it. It is a retail or postal outlet contracted by a financial institution or a mobile network operator to process clients' transactions. Banking agents were first formed in Brazil and
in Colombia to help financial institutions to divert existing customers from crowded branches and to provide a “complementary”, often more convenient channel (Economic times, 2008). Brazil is a pioneer in agent banking. Since 1999, more than 100,000 retail outlets have been turned into agent banks, reaching 13 million extra unbanked people. All 5,600 municipalities in the country now have access to banking services, many only through the use of agents (Economic times, 2008)

1.1.3 Agent Banking in Nyeri

Nyeri central District (officially known as Nyeri Municipality) is a town situated in the Central Highlands of Kenya, which was the administrative headquarters of the country's former Central Province. Following the dissolution of the former provinces by Kenya's new constitution in 2010, Nyeri Central District is one of the three districts in the newly created Nyeri County. Nyeri town has nine main banks namely KCB, Standard chartered, Consolidated bank, Family bank, National bank, Equity bank, Co-operative bank, Barclays bank and Eco bank. It is the headquarter of Nyeri County. According to the recently conducted census of 2011, the town has a total population of 250,000 people. Agent banking in Nyeri is a concept that began in the early 2010 with the pioneer bank being Post bank. By April 2012, three out of the nine major banks namely KCB, Equity and Co-operative bank also introduced the agent product in the Nyeri market so as to get a share of the agent banking segment.

Nyeri’s network of agents has nearly tripled in number from the time of introduction of the concept early in the 2010 with access to bank services spreading in the town and surrounding areas, from 15 to 42 agent outlets. In Nyeri, most banks have moved closer to their customers by opening various branches of agents in small towns. The agents have been recruited within the Nyeri Central business district as well as the small shopping centres around Nyeri Town. This is an initiative of the banks introducing agent banking as a new product to ensure long-term relationships and business continuity that can in the long-term generate the needed growth in either sales or profits or both.

There are 141 agent outlets within the town and the surrounding shopping centres. These agents comprise 27 from KCB, 17 from Co-operative and 97 from Equity bank. In addition to setting up agents within the Nyeri CBD, most of the banks have also targeted the small feeder shopping centres around Nyeri town which rely on Nyeri for their
supplies. These are namely Mweiga, Kiganjo, Chaka, Gatitu, Giakanja, Kamakwa, Tetu and Ihururu shopping center. This makes the many customers of the banks access financial services from their doorstep thus giving them immense convenience by saving them both time and money. The KCB agent outlet is dubbed KCB Mtaani while the Co-operative agent outlet is named Co-op Jirani. Equity Bank have branded their agents as simply Equity agents. Agency banking has enabled bank customers in these areas to access the basic banking services, for example, cash deposit, cash withdrawal and bank balance inquiry conveniently or what would be termed as within the comfort of their neighbourhood. The convenience of access to banking services and the extended hours that the agencies work has been the most attractive features to the customer (as most agencies work between 8am up to 8pm). The rural population especially has heartily welcomed this idea since they have had to sometimes go through vexing experiences to access banking services due to the poor road infrastructure and high costs (Banker, 2011).

1.2 Problem Statement

As businesses fight for high market share, increased profitability and counter competition, local presence and proximity to the customer become paramount to any bank. Agency banking is increasingly becoming a popular strategy among banks who want their presence to be felt in their selected segments. In a way, agency banking is becoming a popular business growth strategy amongst the banks especially in the rural areas. Another reason for agent banking is because of pressure from increasing bank operation hurdles and because of the need for most banks to move closer to customers to ensure long-term relationships and business continuity that can in the long-term generate the needed growth in either sales or profits or both. Agency banking is also beneficial to the banks since it helps decongest the banking halls as well as results in increased revenues because the banks are able to exploit economies of scale (Lindsey, 2011).

Agency banking is still a very new concept in both the banking industry as well as in Kenya within the Nyeri Central District area with the concept being introduced in 2010 (Ndungu, 2010). The problem faced by the banks in use of this strategy is that consumers who ought to accept services brought closer to them are instead not taking up the opportunity to transact at the agencies.
The problem of low adoption of agency banking is noted by Consultative Group to Assist the Poor (CGAP) which is an independent policy and research centre dedicated to advancing financial access for the world's poor. CGAP is supported by over 30 development agencies and private foundations who share a common mission to alleviate poverty. According to Consultative Group to Assist the Poor (CGAP, 2008) in their article “An early experience with branchless banking,” they observe the fact that agency banking has yet to demonstrate pro-poor, pro-growth impacts for households, communities, and national economies. They also note that there are still some major obstacles to widespread adoption beyond purely legal enablement. The study also reveals that few poor and unbanked people have begun using branchless banking for financial services. This makes the job of governments, donors and financial providers who are targeting poor people with financial services much harder. However, this presents an opportunity to do more research on the topic and shed more light on the area of factors influencing adoption of agency banking for reference to future scholars.

This study aims at evaluating the factors affecting the uptake of agency banking in Kenya which make them not to attract the local customers who are the target of the strategy. These factors tend to be both internal and external to the agency. This research is thus important to the government in that it will shed light on areas to be improved on in an effort to provide financial inclusiveness to its rural population. It will also benefit the banks by bringing to their attention those factors that they deem to be critical to the acquisition of customers and have a clear understanding of the main contributing factors that would be important in influencing the embracing and adoption of agency banking as a product by the population.

1.3 General Objective
The general objective of this study was to investigate the challenges affecting the adoption of agency banking in Nyeri Central District in Kenya.

1.3.1 Specific Objectives
The specific research objectives were:

i) To establish how a product’s relative advantage affects adoption of agent banking in Nyeri Central District.
ii) To establish whether product complexity is a factor affecting the adoption of agency banking in Nyeri Central district.

iii) To establish whether the personal factors affect the adoption of agency banking in Nyeri Central District.

iv) To determine how awareness affects the adoption of agency banking in Nyeri Central District.

1.3.2 Research Questions

This study had four research questions. These included;

a) What was the effect of products’ relative advantage on adoption of agency banking in Nyeri Central District?

b) What were the effect of complexity on adoption of agency banking in Nyeri Central District?

c) What was the effect of personal factors on adoption of agency banking Nyeri Central District?

d) How did awareness affect the adoption of agency banking Nyeri Central District?

1.4 Significance of the Study

This research benefited the following groups.

1.4.1 The Management of Agents and the Banks

The findings of this study helped the management of agency banking and the banks in several ways including: First, it helped in appreciation of the role agency banking plays towards the customers. It was also identify and give priority to those factors that have greatest bearing on customer decision. Lastly the finding helped in identifying additional services that agency banking needed to play towards the customer.

1.4.2 The Private Sector

This study was guided to other prospective private sector organisations willing to venture into agency banking and establish their own businesses. They were able to identify those factors that hinder the customers from transacting with the agents.
1.4.3 Students and Researchers
Students and researchers used the research findings as a point of reference in their endeavour to search for answers. This research was therefore add to the existing body of knowledge.

1.5 Limitations
1.5.1 Time Constraint
A timeline was developed meant to guide the researcher in completing various tasks and activities. However, it took longer to undertake various activities largely due to factors outside the control of the researcher. Examples include obtaining all duly completed questionnaires in good time as well as increased workload at the workplace.

1.5.2 Access to the Right Information
Obtaining information from agency banks was not easy because all institutions handling financial matters rarely release such information easily. However, all efforts were made to convince the attendants such that cooperation was cultivated.

1.5.3 Financial Constraint:
Although a budget was developed and operationalised, it was evident that higher expenses were incurred above what was budgeted. To that extent, financial constraints were experienced.

1.6 Scope of the Study
The study covered the managers and employees of the agents working in various agency banks in Nyeri town. A sample of 42 agency banks was drawn from the Equity Bank, KCB and cooperation bank which operated agency shops within Nyeri Central Business District.
CHAPTER TWO

Literature Review

2.1 Introduction

This chapter reviews literature relating to challenges that adoption of agency banking faces. It will identify, evaluate, synthesise and present the relevant information from sources such as industry publications and journals, textbooks, magazines, the internet and other past studies undertaken by management gurus. While it is not possible to provide a complete review of all studies that have been conducted on all issues relating to challenges facing adoption of agent banking in Kenya and particularly in Nyeri Central District, some attempt has been made here to focus on issues of concern to this study.

2.2 Definition and Concept of Adoption.

Adoption is Key to the success of products and services (McClain, 2010). Adoption is continuous use throughout a product’s expected lifecycle (Lawson, 1996). Thus, adoption is different from purchase behaviour, which does not take a product’s actual usage into account. According to Rashmi (2009), adoption can also be defined as an individual’s decision to become a regular user of a product. It includes the sequence of events beginning with consumer awareness of a new product leading to trial usage and culminating in full and regular use of the new product. In evaluating products, there is emphasize of adoption over purchase behaviour because adoption tends to lead to other important user behaviours such as customer loyalty, future purchases, and customers’ becoming brand advocates (McClain, 2010). In McClain’s experience, there are four factors that directly affect adoption: perceived value, confidence, accessibility, and trust. By understanding and assessing each of these factors, one can gain insight into how to maximize adoption.

According to Rogers (2003), the rate of adoption is defined as the relative speed with which members of a social system adopt an innovation. It is usually measured by the length of time required for a certain percentage of the members of a social system to adopt an innovation. The rates of adoption for innovations are determined by an individual’s adopter category. In general, individuals who first adopt an innovation require a shorter adoption period (adoption process) than late adopters. The behaviour
most commonly referred to in the definition of adoption is 'the acceptance and the continued use' of an innovation (Robertson, 1971). Alternatively, Rogers (1962) views adoption as 'a decision to continue full-scale use of an innovation’ (p.17). Robertson's (1971) definition implies that not every innovation purchase results in adoption. In the case of non-durable innovations, for which continued use would pose an evident problem, Robertson (1971) replaced 'continuous use' by 'repeat purchase decisions', thus indicating that the operationalization of adoption is dependent upon the nature of the product class under consideration. Apparent operational complexities relate to the time frame and the number of repeat purchases to be considered, and to the necessity to allow for product category differences. Rogers’ (1962) definition basically refers to the intention to continue full-scale use of the innovation. There are two problems with this definition; the first being that research has shown that intention is a rather weak determinant of the corresponding behaviour (Howard 1994). The second problem is that the definition seems to address a mere determinant of adoption: innovation acceptance. Thus, there is a risk of confusing the determining concept with the determined concept.

In order to clarify the definitional issue of adoption, some scholars have also tried to find a distinction between acceptance and adoption. Wilkening (1953) was the first to use the concept of acceptance. However, in his definition, acceptance included both approval and adoption. According to Klonglan and Coward (1970), approval is the affirmative evaluation of a practice whether or not innovation trial has occurred, and adoption refers to the incorporation of the innovation into the behaviour pattern. Bohlen (1964) explicitly called for a distinction between acceptance and adoption, considering the time lag between mental acceptance and actual adoption. Bohlen (1968) and Rogers (1968) introduced the concept of symbolic adoption, to be defined by Rogers (1968) as the adoption of symbolic ideas without material parallel. Examples of symbolic ideas are migration, occupational choice, and partner choice (Bohlen 1964). Klonglan and Coward (1970) were the first to view symbolic adoption as a part of the adoption process, regardless whether the innovation being adopted is material or immaterial. The underlying assumption is that all innovations include an idea component and that some innovations also include a material component Krampf, Burns and Rayman (1993).
2.3 Adoption Decision Theories
There are a number of adoption theories:

2.3.1 Diffusion of Innovation and Adoption Theory (Rogers 2003)
The Diffusion of Innovations theory seeks to explain how an innovation is introduced and adopted by individual users or organizations. Everett Rogers (1995), the theory's main proponent in the field of communication studies, defines diffusion as the process through which an innovation is communicated via certain channels over time among the units in a social system. According to Rogers (2003), the rate of adoption is defined as the relative speed with which members of a social system adopt an innovation. It is usually measured by the length of time required for a certain percentage of the members of a social system to adopt an innovation. The rates of adoption for innovations are determined by an individual's adopter category. In general, individuals who first adopt an innovation require a shorter adoption period (adoption process) than late adopters.

Rogers (2003) states that within the rate of adoption there is a point at which an innovation reaches critical mass. This is a point in time within the adoption curve that enough individuals have adopted an innovation in order that the continued adoption of the innovation is self-sustaining. In describing how an innovation reaches critical mass, Rogers outlines several strategies in order to help an innovation reach this stage. These strategies are: have an innovation adopted by a highly respected individual within a social network, creating an instinctive desire for a specific innovation. Inject an innovation into a group of individuals who would readily use an innovation, and provide positive reactions and benefits for early adopters of an innovation. Rogers (2003) distinguishes the adoption process as an individual phenomenon describing the series of stages an individual undergoes from first hearing about a product to finally adopting it. On the other hand, diffusion process signifies a group of phenomena, which suggests how an innovation spreads among consumers. Overall, Rogers (2003) notes that the diffusion process essentially encompasses the adoption process of several individuals over time.

Rogers (2003) argues that adoption of a product is also affected Perceived attributes such as Comparative advantage which the degree to which an innovation is perceived better than the idea it supersedes. Complexity is another factor which he defines as the degree to which a practice is perceived as relatively difficult to understand and to adopt negatively
related to its rate of adoption. The third attribute is trial ability which is the degree to which an innovation may be experimented at a limited basis. The final attribute is compatibility which is the degree to which sustainable practice is perceived as consistent with the existing values, past experience and needs of potential adopters.

Rogers (2003) considers the adoption process as the decision process through which an individual passes from knowledge to attitude and finally to adopting (individual or collective, optional or authority). It could also be influenced by communication Channels interpersonal or mass media, originating from specific or diverse sources or social system which comprises the norms, network inter connectedness, socio-cultural practices and norms that can inhibit or drive adoption.

2.3.2 Theory of Psychological Field
This theory was developed by Kurt Lewin in 1940. Human behaviour is seen as a result of the interplay of diverse forces that create a set of circumstances through the dynamic interaction of man and his environment (Albrecht et al. 1987 in; Hoffmann, 2005; Ndah, 2008). According to the psychological Field theory of Kurt LEWIN, the interaction of situational forces with the perceived environment can be described as a field of forces, a system in tension or a psychological field.

Human behaviour can be described as follows: A person (P) in his subjectively perceived environment feels something is worth striving for (a target e.g. agent banking). He/she then mobilizes his/her personal powers to achieve this goal (adopt Agent banking). When something negative or undesirable occurs he activates his personal powers in the same way to avoid the negative situation. Ways of reaching targets and avoiding negative situations can be blocked or impeded by barriers or inhibiting forces (lack of knowledge, uncertainty about outcome, insufficient capital, cultural practices, lack of opportunities for scaling up of Agent banking innovation.

2.3.3 Theory of Behaviour Modification (Albrecht et al, 1987)
Inhibiting forces-forces negatively influencing behavioural change (adoption of agent banking) for example lack of capita, limited knowledge (for labour using agent banking), lack of the desired infrastructure for example a mobile phone, and limited knowledge driving forces-forces conducive to positive target (adoption) for example financial
assistance, technical advice, training, provision of inputs, financial assistance, linkage with market outlets, etc.

Behaviour (adoption) is thus seen as resulting from the psychological field of inhibiting and driving forces hence these forces are present in a state of equilibrium or disequilibrium with varying degrees of tension between them. Once such forces are identified in the farmers decision making process, the chances of diffusion can be estimated and consequences for promotion programs can be concluded (Kriesemer and Grötz 2008).

2.4 Stages in the Adoption Process of New Products.

The adoption process refers to the sequence of behaviour that a consumer displays as they encounter a new product (Lawson et al, 1996). The consumer-adoption process focuses on the mental process through which an individual passes from first hearing about an innovation to final adoption. Adopters of new products have been observed to move through five stages. These are, Awareness, Interest, Evaluation, Trial, Adoption (Rogers, 1994).

2.4.1 Awareness

The first stage, Awareness, is most important and is also where marketers put a lot of effort and money. If consumers are not aware that the product or service exists, how can the company expect the consumers to buy it? Advertising the product to consumers is hard work to make sure the correct image is developed and the product is desired. Examples of advertising may include media or print ads (Kotler, 1994).

According to Coleman (1966), individuals tend to expose themselves to ideas that are in accordance with their interests, need and existing attitudes. Individuals consciously or unconsciously avoid messages that are in conflict with their existing predispositions. This tendency is called selective exposure defined as the tendency to attend to communication messages that are consistent with the individual’s existing attitudes and beliefs.

Hassinger (1959) argued that individuals seldom expose themselves to messages about an innovation unless they first feel the need for the innovation and that even if the individuals are exposed to innovation messages, such exposure will have little effect unless the innovation is perceived as relevant to the individuals needs and is consistent
with the individual attitudes and beliefs. This process is called selective perception. An individual may develop a need when he or she learns that an innovation exists. Change agents may create needs among their clients by pointing out the existence of desirable new ideas. Thus the knowledge of the existence of a new product can create a motivation to learn more about it and ultimately adopt it.

According to Bohlen (1957), at the awareness stage most people said they first heard about a new idea through mass media than any other source. Operationally, mass media were defined as those sources of information which were available to the public, such as radio, TV, newspapers, farm magazines, and other forms of commercial publications. This category does not include publications issued by government agencies, which individuals obtained by request.

2.4.2 Interest
The second stage is Interest. This stage is when the consumer becomes aware of the product and searches out information. A popular method of searching out information is the internet. A company’s website tells a potential customer what it looks like, its specifications, its price, ways to purchase and much more. Technology has played a big role in today’s website advertising, guaranteeing interactive information and data collection. (Kotler, 1994).

The interest process is essentially an information-seeking and information processing activity in which an individual is motivated to reduce uncertainty about the advantages and disadvantages of an innovation. An innovation typically comes with such questions such as “what is the new product?” and how it works. After being aware that the new product exits, the adopter must understand what quantity of an innovation to secure and how to use it correctly and so on. In the case of products that are relatively complex, the amount of how to knowledge needed for adoption is much greater than the case of less complex ideas (Roger, 1965).

2.4.3 Evaluation
Next are the stages of Evaluation and Trial, where the consumer thinks if this product or service is good, and more importantly, how this product can be beneficial to them. When consumers believe the product is good and it can benefit them by buying it they are more
likely to purchase. The consumer decides if it suits their needs or wants. To entice consumers, sometimes marketers will provide samples or trials of their product. This gives consumers a "taste" of what the product really is, how it works and shows them its benefits. Also coupons or introductory sale prices are given as motivation to try the product out for a reduced price. (Kotler, 1994).

In an article by Gayle (2008) in the evaluation stage, the individual mentally examines the innovation using the information gathered, trying to determine whether it will really impact their work and how it will make their effort easier or better. This is a critical stage and the first one where the voices of the community (i.e. co-workers, friends or neighbours) are often the largest influence on an individual, rather than outside contacts. In the trial stage, the individual actually tests the innovation to see if reality matches expectations, usually with small-scale, experimental efforts. Often at this stage, any source of information that is determined to be helpful will be used, although close community ties are still the most important. Individuals are looking for specific help for their specific need (Gayle, 2008).

2.4.4 Adoption

Finally is the adoption stage. The business dictionary best describes this stage by explaining, "the customer moves from a cognitive state (being aware and informed) to an emotional state (liking and preference) and finally to the behavioural or cognitive state (deciding and purchasing) (Kotler, 1994).

The stage commonly left out of the consumer adoption process, internalization, is the long term stage. This is similar to a customer becoming loyal to a brand, Brand Loyalty. Internalization is when the beliefs and attitudes of the consumer are changed. This stage is the long term goal for every marketer and company. Internalization of a consumer is changing their buying habits or behaviours to purchasing their product or service only. These stages are protocol at the beginning of every new product or service but are routinely followed whenever a consumer is shops. The product may not be new to the market but it is new to them. This is why continuous advertising is necessary and why marketers need to constantly keep making consumers aware of what they have to offer.
2.5. Factors Influencing the Adoption Process

Marketers recognize the following characteristics of the adoption process: differences in individual readiness to try new products, the effect of personal influence, differing rates of adoption, and differences in organizations readiness to try new products (Mohammad, 2011).

2.5.1. Readiness to Try New Products:

Kotler (1994) defines a personal innovativeness as the degree to which an individual is relatively earlier in adopting new ideas than other member of his social system. In each product area, there are pioneers and early adopters. People can be classified into adopter categories such as innovators, early adopters, early majority, late majority and laggards. After a slow start, an increasing number of people adopt the innovation, the number reaches a peak and then it diminishes as fewer no adopters remain.

Kotler (2014) sees the five adopter groups as differing in their value orientation. Innovators are venturesome, they are willing to try new ideas while early adopters are early but careful. The late majority are sceptical. They adopt an innovation only after a majority have tried it. These classifications then suggest that a firm that is producing new products should research the demographic, psychographic and media characteristics of the various types of adopter categories and directly communicate to them.

2.5.2 Personal Influence

Personal influence is the effect one person has on another’s attitude or purchase probability. Personal influence is more important in the evaluation stage of the adoption process than in the other stages. According to Kotler (1994), it has more influence on late adopters than early adopters. He also mentions that it is more important in risky situations. Most companies target innovators and early adopters in their new products and services rollout.

2.5.3 Characteristics of the New Product:

According to Kotler (1994), some products catch on immediately while others take a long time to gain acceptance. Five characteristics influence the rate of adoption of a new product.
According to Rogers (1995) adoption of new products can also be explained by three other attributes of an innovation: complexity, trialability and observability. Ostlund (1974) added another attribute, the perceived risk of an innovation. The academic literature is filled with debate on whether product innovativeness positively impacts new product adoption because of increasing competitive advantage, or negatively impacts adoption due to consumers' fears of novel technology (such as performance and safety) and resultant resistance to adopt (for example, Rogers 1995). Investigating determinants of new product adoption is important because developing these products is costly, products' life cycles are short, and competition among firms is fierce.

2.5.3.1 Relative Advantage
The first is relative advantage of using a product. According to Rogers (1995), the greater the perceived advantage of using a product, the quicker a product will be adopted. This is the extent to which a given consumer sees a certain attribute of a new product or service to be better than the attributes of similar existing products or services. If a consumer sees the new product attribute as better than existing ones, it does not necessarily mean that that attribute is actually better. This means that this product characteristic is based on consumer perception. There is a direct relationship between positive relative advantage and new product adoption rates. The more a consumer views a certain attribute as being better than those of existing product attributes, the more rapid the rate of adoption. A new product's/service's relative disadvantages (such as increased prices and the increased time it might take to learn how to operate the new product) will, of course, have an opposite effect on the adoption rate.

According McClain (2010), perceived value is the central factor in product adoption. When assessing a product's value, look at whether it provides functionality that would have a positive impact on the life of a consumer. When considering the likelihood of adoption, focus on evaluating a product's perceived value, because, while a product might actually have a positive impact, if consumers do not perceive and understand that impact, the product is not likely to achieve significant adoption.

Conversely, a product might not actually have a positive impact. However, if customers perceive that it does, the product might achieve a respectable rate of adoption. Value can come in both hedonic and utilitarian forms—that is, a product can be fun or useful or
some combination of the two. We must also take perceived value into account when
determining a product’s cost. If the cost of a product is out of proportion with its
perceived value, customers will deem that it is not worth the cost and won’t purchase it.

Developing perceived value begins with defining and selling a product’s value
proposition. If consumers do not understand a product’s value proposition, whether
implicit or explicit, they are extremely unlikely to perceive it as having value. When
evaluating a product’s perceived value, there are two questions we must address: Is it
fun? Is it useful? For both of these questions, the best data we can get is objective data. If
a participant has a smile on his face and can’t put the product down, it is a positive sign
your product has perceived value. When you are collecting subjective data about a
product’s utility, you can ask participants how they would use the product. If participants
can quickly list a few applications, the product likely has some perceived value. If
participants struggle to think of an answer, there might be some difficulty with perceived
value (McClain ,2010).

2.5.3.2 Compatibility
The second is compatibility which is the degree to which the innovation matches with the
values and experiences of the individuals (Kotler 1994). Personal computers are for
example compatible with middle class lifestyles. Compatibility is how the consumer
perceives the new product or service into the person’s lifestyle choices. When the product
or service closely matches the individual’s needs, wants, beliefs, values, and
consumptions patterns, the innovation can be considered highly compatible with the
consumer. For example even though a coke substitute might have an almost identical
flavour to the real thing, consumer’s who are loyal to the Coke brand are unlikely to
purchase the substitutes. This is because in the consumer’s mind the real Coke is the only
Coke, and anything else is considered “junk” or worthless. In this case the coke substitute
would be considered incompatible with the loyal Coke drinkers.

2.5.3.3 Complexity
According to marketing definitions, (2007) product Complexity is the degree of difficulty
which a purchaser of a new product has in understanding it; a major determinant of the
rate of new product adoption. Complexity is also defined as the degree to which an
innovation is perceived as complex/difficult to understand or to use (Cheung, Chang &
The extent to which the consumer considers the innovation to be difficult to utilize in known as the innovation’s complexity. If the innovation has a high level of complexity, it will have a lower level of adoption. If the innovation is perceived as being less complex than it’s existing counterparts, a marketer can sometimes use the advantage to gain a price premium on the new product or service (Rogers, 1994).

Innovation that is simpler to understand and also easy to use would incline to be adopted more rapidly than innovations that requires adopters to learn new skills and understanding. Past studies found that complexity has negative influence on innovation (Cooper & Zmud, 1990; Cheung et al., 2000; Lederer et al., 2000). Hence, the more complex an innovation is, the slower will be its diffusion. However, the modern day consumers will find using agency banking as easy to use because they tend to be educated and has sufficient understanding of computer and Internet (Mohd, 2010).

2.5.3.4 Trialability
Triability is a degree to which an innovation may be tried out on a limited time basis. Rogers (1983) suggested that potential adopters of an innovation when allowed to experiment with the innovation would feel more comfortable with the innovation and hence would be more likely to adopt it. The opportunity given to consumers to experiment an innovation would reduce their uncertainty of the innovation before adopting it. According to Tan and Teo (2000) chances to try an innovation will minimize consumers’ unknown fears. In the context of agency banking, a more rapid diffusion of agency banking is expected because the risk and trial of agency banking service can be considered as relatively low.

Rogers (1983) also notes that if the new product or service can be tried out for limited time period before an actual outlaying of money, the product adoption rates will rise substantially. Trialability reduces the consumer’s perceived risk of making a purchase of the product. By letting your customer try your product before the purchase, you are showing your customer that you are confident enough in your product to allow them to try it before they make a purchase. Of course, the trial offering has to be tailored to appropriately fit with your product offering. For example if you own a website that offers paid subscription based financial services, you might want to try to offer a free one month subscription (Stephan, 2007)
2.6 Relative Advantages

Relative advantage is the extent to which a given consumer sees a certain attribute of a new product or service to be better than the attributes of similar existing products or services. Its benefits of adopting the new products compared to the costs (Rogers, 1983). Terence (2010) observes that relative advantage is positively related with an innovations adoption rate. He argues that the greater the innovations relative advantage compared to existing offerings, the more the rate of adoption all other considerations held constant.

The Relative Advantage of an innovation may be in the form of economic gain or in the form of cost savings. The costs that are saved could be either financial, such as investment costs, or social, such as ridicule, ostracism or expulsion from peer groups (Homans, 1961). The innovation could also provide improved performance at comparatively lower costs - in other words, higher "value." If the Innovation provides a low relative advantage over existing substitutes (or, in fact, provides higher relative disadvantage) then consumers are more likely to resist it.

According to Rogers (2003), relative advantage is typically measured in narrow economic terms, for example cost or financial payback, but non-economic factors such as convenience, satisfaction and social prestige may be equally important. In theory, the greater the perceived advantage, the faster the rate of adoption. It is useful to distinguish between the primary and secondary attributes of an innovation. Primary attributes, such as size and cost, are invariant and inherent to a specific innovation irrespective of the adopter. Secondary attributes, such as relative advantage and compatibility, may vary from adopter to adopter, being contingent upon the perceptions and context of adopters. Incentives may be used to promote the adoption of an innovation, by increasing the perceived relative advantage of the innovation, subsidizing trials or reducing the cost of incompatibilities.

A study by CGAP (2010) which is an independent policy and research center dedicated to advancing financial access for the world's poor, perceived usefulness of agency banking was found to have a positive effect on the demand and adoption of the service. The existing hardship among the population in accessing the banking and financial services was found to be a reason for high perceived benefits of agency banking. Many villagers
who lived far away from their village for earning a living had to send money to their family members. Such people found agent banking to be convenient as well as safe and secure as the villagers perceived that there would be no risk of the money being stolen if it is transferred through a mobile device. Convenience and mobility was the main benefits that were perceived by the villagers.

According to CGAP (2010), moreover, in places where people had to spend around Kshs.500 to travel 15-20 kilometres to reach the nearest bank branch or ATM and then stand in long queues in order to deposit or withdraw money from their account agency banking was considered useful in saving both time and cost. People also felt that agency banking would be beneficial for fetching money during the odd hours of the day in case of any emergency. All these aspects lead to convenience in terms of time, effort and money which ultimately enhanced perceived usefulness of agent banking among the villagers. The cost of availing the agent financial services was also a common matter of concern among the villagers who were interviewed. People wanted to know whether they would need to purchase a new handset for using agent banking and were also eager to know the cost of transaction for availing this service. People were ready to pay a small amount per transaction for using the service. They were aware and appreciated the fact that using agent banking would save them a lot of time, effort and money that they current spent for accessing banking and financial services through the existing channels of delivery.

Cost of the agent banking hence is also an important factor that would determine the adoption of the services among the rural population. Given the fact that majority of the rural population falls within the lower income group, the total cost of availing the services need to be minimized for ensuring faster adoption (CGAP,2010).

2.7 Complexity

Complexity is also defined as the degree to which an innovation is perceived as complex/difficult to understand or to use (Cheung, Chang & Lai, 2000). Ease-of-use being one of the core constructs of TAM (F. D. Davis, 1989) has been thoroughly used and tested in various extended models of TAM as well as in models that were based on TAM to understand the adoption of m-banking agent banking. Perceived ease of use is defined as the degree to which an individual believes that using a particular system would
be free of physical and mental effort (Davis, 1989). Different studies by CGAP (2010) have found ease-of-use of products to be a very critical factor affecting its adoption among the rural population. Given the fact that, the level of education is not very high among the rural population and they are much more comfortable with their local language, it becomes very important to design a service that is easy to use as well as in the language that the people are comfortable with.

According to a study conducted by CGAP (2010) in Africa, Villagers who had used agent banking stated that initially, they had thought operation of agent banking would be difficult, but once they were shown how to use the same, they found it to be easy. They stated that once they had seen some demonstration of the use of the services, they would be able to learn it quite easily. On the other hand, certain section of people felt usage of technology like mobile to be complicated and did not have any interest in trying them out (CGAP, 2010). This clearly showed that perceived self efficacy among the people played a very critical role in setting perception about ease-of-use of the technology and service that is being offered. Hence, ensuring ease of use of the offered service both in terms of technology as well as the financial products being offered would be a very important factor in the adoption of agency banking. Moreover, the language of communication needs to be the local language of the region for enhancing adoption.

2.8 Personal Factors

Interpersonal factors are social factors that arise as a result of interpersonal interaction of a consumer with others. According to Kotler, P. (2007) social factors include reference groups such as family, peers, colleagues at work, etc., opinion leaders, social class, and culture. Bateman and Snell (2002) emphasise that “interpersonal factors decrease decision-making effectiveness”. Reference Groups: These are groups in society with which the consumer relates either as a member or an aspiring one. She/he may use a product brand to establish identity with a group. The consumer learns from observing how members of reference groups solve their consumption problems and arrives at the decision.

According to Kotler and Keller (2007) reference groups have three important marketing implications: Serve as information source and influencer of perceptions, they affect individuals aspirations levels. Their norms serve as constraints to stimulants to
consumption behaviour e.g. before using agent banking you must check what your friends are using. Opinion Leaders: These are persons who belong to primary groups and whose opinions are sought in one or more product or service areas. According to Schiffman & Kanuk (2007) opinion leaders are exposed to media more than those who they influence. They carry messages to people who are less exposed to media. They could be regarded as gate keepers.

2.8.1 Social Class
This refers to the status rank within society. A given class is a group of people who are considered to be approximately equal in community and esteem and is made up of women and men who regularly socialize among themselves in both formal and informal ways and who share behaviour norms. (Wayne, 2009) Social scientists have divided the social class into six classes: upper class, upper middle class, middle class, working class, the working poor, the underclass (Wayne, 2009).

2.8.2 Culture
This refers to a set of values, ideas, attitude and other meaningful symbols that shape human behaviour and the artefacts of the behaviour as they are transmitted from one generation to the next. It is the most fundamental determinant of a person’s want and behaviour (Hofstede, 1997). According to Wayne, (2009) culture may be divided into three categories Case Culture: The basic culture that is observed by obeying the cultural practices of the primary society like religion, language, marriage values etc. Sub Culture: The cultural practices that have changed due to social interaction like education, intermarriage, resettlement etc. This can change the core cultural practices, attitudes and beliefs to view the situation into a conventional way for example, speaking a foreign language, adopting a new way of life, intermarriage Secondary Culture: Adopting totally beneficial practices that add no value to the culture of the society like copying hippies’ lifestyle or rap music.

Kotler (2002) on discussing about personal factors states that these factors may be biological as well as psychological and includes lifestyle, age, life cycle stage, occupation, economic circumstances, personality, and self-concept. Age and Life Cycle Stage: The age of a consumer determines the types of decisions to make in relation to the buying of a product/service e.g. the baby products, the married or the old. Life cycle stage
explains the life of a consumer from childhood to manhood. It explains the type of goods and the frequency to buy the products/services e.g. newly married couple without child may spend more on leisure than needs. Occupation: It influences the buying trend of a consumer, for instance a mechanic may go for spanner, apron etc.

2.8.3 Economic Circumstance
The economic status of a consumer dictates the type of goods to buy and the buying limits (Wayne, 2009). Low economic status consumers go for cheap and basic goods.

2.8.4 Lifestyle
People who have been influenced by other cultures may lead the life that may require them to live conventionally. Say an educated African may practice the culture of American so imported services and products may be sold to him/her.

2.8.5 Personality
This may be explained in terms of self confidence, dominance, autonomy, indifference, sociability, adoptability, influential as different personalities one may acquire. Behaviour can be described as ones reaction in a specified way towards people, events, situation, and things etc. that is, behaviour expresses one’s attitude towards life. Therefore, consumer behaviour is the study of the processes individuals use to arrive at purchase decisions. It also includes the analysis of factors that influence purchase decision and predict usage (Kotler and Armstrong (2008).

Understanding customers’ needs and wants is only a first step in understanding their behaviour. People are complex, their behaviour varies, is unpredictable and challenging to forecast. Consumer behaviour models offer a useful tool to the marketer who wishes to understand the consumer decision process, and to predict consumer reactions to a marketing strategy based on the manipulation of stimulus and interviewing variables. The “modelling approach” to understanding the customer dynamics or behaviour is based on the idea that any phenomenon or process can be simplified, be leaving out of the “picture” any aspects or variables that are not of interest to the modeller while still portraying something meaningful about the real phenomenon or process.
2.9 Awareness

According to Gilbert (2001), product awareness is when a product or service is well received by its target market. The "Financial Times" defines product awareness as "awareness about a company's products and the different features they have." It means a proportion of individuals within a target market have become aware of the existence and availability of a certain product, brand or service. When you introduce a new product to the market, one of the hurdles that must be overcome is lack of consumer awareness. Initially, no one knows about your product or service. Once you increase the amount of awareness about your product, sales may start to increase as a result. You need customers to understand what your product is and how it can benefit them in some way. Regardless of how good your product is, it will not help anyone if they are unaware of it (Arthur, 1999).

The process of growth, diffusion and erosion of product's sales arises as a result of the interaction between consumers and firms behaviour, although the demand side plays a crucial role to explain the initial evolution of the sales. In durable markets the initial growth of new product's sales is usually attributed to consumers becoming informed about the existence of the new product (Horsky and Simon 1983 and Krishnan and Jain 2006). It means a consumer awareness process where the proportion of consumers aware of the new product increases over time. Advertising affects this information process by informing the consumers of the product's existence, although it can take place without advertising through other source of information such as consumers already aware about the new product (Kwoka, 1996). The effect of advertising on sales via informing the consumers of the product's existence is dynamic since advertising will affect the consumers aware of the product in the future, and therefore will affect future sales. This dynamic effect of advertising explains that firm usually advertises a product the most at the entry.

2.9.1 Awareness Advertising

The goals of awareness advertising do not usually involve making money in the short term. Awareness advertising seeks to increase the name recognition of your small business in the minds of consumers across your target market area. These advertising objectives are particularly useful in the early days of your company when you don't have as many customers as your competitors (Lister, 2003).
2.10 Agency Banking

Agent banking is the most significant shift in banking policy in recent times. It was introduced during the 2009 budget and enshrined in Finance Act, 2010. This means that financial institutions need not have a branch in a locality to do business. As strategy, agency banking provides opportunity to banks to increase their network of financial services as well provide improved service to their customers. In many situations, Agent banking is adopted by business entities as bait for getting customers into their businesses so at to increase sales of their mainstream business. The experience from Brazil shows that “traffic can increase by up to 35% when an entrepreneur introduces a bank agency into the business”. However, if a merchant enters the agent business with the hope of making a good profit, “s/he will quickly drop out”. (Branchless banking in Brazil, 2010).

According to CGAP (2007) which is an independent policy and research center dedicated to advancing financial access for the world’s poor, Brazil has the largest agent network in the world with more than 113,000 agents, close to 40,000 of which offer a broad range of banking services including cash-in, bill payments, and account opening and loan applications. Agents in Brazil conducted 2.4bn transactions in 2009. In contrast to Kenya, branchless banking in Brazil is bank-based and card-based. Transactions happen with point-of-sale (POS) devices at each agent location, not via mobile phones. A National FinAccess Survey done in 2009 revealed that 32.7 per cent of Kenya’s bankable population is totally excluded from both formal and informal financial services, and it is this category that is increasingly being targeted for financial inclusion. (Mutegi, 2010) In 2010, “agency banking directly resulted in the industry experiencing an increase in their total customer deposits by about Sh600 million over a three-month” period (Mutegi, 2010).

2.10.1 The Adoption of Agent Banking

A number of factors contribute to the adoption of agent banking in Kenya in general and specifically Nyeri Central District. These factors can be categorised into two: those factors that influence acceptance of agent banking by the customer and those factors that contribute to organisational uptake of agent banking as a form of business. Although not specifically referring to any one of the two categories, Staschen (2007) highlights the factors that limit access to Agent Banking include: High distances / low population density, Low income relative to cost of service, Low education and illiteracy, Lack of
credit history. Poor product / channel design e.g. KCB agents have to use only mobile phones, Narrow range of products/services offered by agents such as cash deposit withdrawal, Low Customer Service standards. The three main factors affecting agent banking thus include the consumer (of financial service), the agent (businesses that are recruited for agent banking) and the Banks (using agent banking as business strategy). This could be depicted as follows:-

2.10.2 Agency Banking as a Strategy

Strategy plays a big role in the retail environment when it comes to distribution and marketing of any type of product or service. Such strategies are influenced by a number of factors. According to Drummond, G. et al (2008) “any strategy is significantly influenced by environmental change. Political, economic, social and technological factors drive change and impact on the organization. This results in volatile, intensely and competitive market place.” According to Johnson and Scholes (1999), “strategy is the direction and scope of an organization over the long term: which achieves advantage for the organization through its configuration within a changing environment, to meet the needs of markets and to fulfill stakeholder expectations”. Banking institutions are at the heart of grand strategy development as a way of long term survival and growth. Agency banking is such a strategy and it aims at meeting market demand in those areas where the banks are not able to establish a branch or where the market needs demand extra banking services.

More and more banks are moving towards agent banking. In their effort to guide decisions in modern retailing, Mayer, M. L. et al (1993) suggest that institutions, such as Banks, need to ask four key questions when deciding on channel strategy. What density of market coverage is needed?, How many different channels should be used?, What tasks must be performed?, What level of channel control will be exercised? The Kenya Financial Sector Deepening (FSD) programme which was established in early 2005 to support the development of financial markets in Kenya with the objective of stimulating wealth creation and reduce poverty gave the following factors as the opportunities and constraints to financial market development. These opportunities and challenges work at a number of levels.
"At the macro level, government policy, legislation, regulation and supervision set the basic framework within which markets operate. An effective and enabling environment reduces the costs and risks of doing business, and so helps to make financial services accessible for lower-income clients. At the other end of the spectrum, at the micro level, it is retail providers – the agents - who actually deliver services, from investment banks to village banks. Developing practical know-how among financial institutions is at the heart of market development. Frequently, the lack of experience and technical expertise or the risks faced in entering and developing an unfamiliar market deter financial institutions from expanding into new client segments. Between these two levels, at the meso level, are industry and sector services on which retail providers depend, encompassing such areas as audit, training, IT services, credit reference, marketing, research and consultancy. All of these are vital to the sector’s efficient functioning. Building the capacity and know-how among relevant service providers to the industry can enhance market development.”

FSD Annual Report, 2009

At the macro-level an appropriate enabling environment is created by CBK that has been mandated to develop guidelines on financial administration in Kenya (CBK/PG/15). The CBK, in its guidelines on agent banking, requires that the institution that would like to engage in agency banking provide to the bank their strategy of using agency banking. In part the guideline states that “the Applicant shall submit, the institution’s delivery channel strategy and how agents fit in this strategy. A feasibility study of the global view of future operations and development of the agent business for a minimum period of three years from the date of the application including. The geographical and economic service areas of the proposed agents, estimate of total population and economically active population of the areas where the agent will operate, analysis of the relevant market over the past two (2) years, along with an estimate of the proposed agents’ volumes/transactions in the institution’s delivery channel strategy. Description of the agent management structure to be used by the institution. Financial projections on the share of the proposed agents in the institution’s business, and business strategy for agent banking. (The Guideline on agent banking - CBK/pg/15, 2010)

The above guidelines by CBK seem to be well accepted by all the major stakeholders. As reported by Irungu, G. (2010) the bankers, through Kenya Bankers Association said “the new guidelines were a welcome move stressing that the stringent nature of the rules was
informed by past developments in the financial services sector that had seen a number of institutions collapse”. In addition, a statement by Kenya Bankers Association (Irungu G., 2010) states that the association “recognised the position of the Central Bank though, they admitted, the prescriptive nature of the rules had the potential to stifle business growth”.

The current strategic directions most banking institutions are taking for growing/developing their market is the adoption of agent banking since this allows for town -to-town and village-to-village penetration of the local market. According to Johnson and Scholes (1999), some of the development and growth strategies adopted by organisations include directions such as protect and build, market penetration, product development, market development and diversification and alternative methods such as internal development, acquisition and joint development/alliances.

Johnson and Scholes show that if an organisation’s aspirations outstrip the opportunities in existing markets, it is natural to look for opportunities elsewhere. These can be achieved in three ways: extension into market segments which are not currently served, development of new uses for existing products, geographical spread either nationally or internationally into new markets. With such reasoning from Johnson and Scholes, it is inevitable for most banks to start adopting agency banking as a way of spreading their tentacles into new geographic locations. Careful thought needs to be given to the way in which an organisation positions its products in markets – which inevitably means selectivity of market coverage (Johnson and Scholes, 1999)

2.10.3 Services offered by the Bank Agent - Permissible Activities of an Agent

Based on CBK Guidelines on agency banking 2010, “an agent may provide any of the following banking services as may be specifically agreed between it and the institution. Cash deposit and cash withdrawal, Cash disbursement and cash repayment of loans, Cash payment of bills, Cash payment of retirement and social benefits, Cash payment of salaries, Transfer of funds, Balance enquiry, Generation and issuance of mini bank statements, Collection of documents in relation to account opening, loan application, credit and debit card application, Collection of debit and credit cards, Agent mobile phone banking services, Cheque book request, Cheque book collection by customers, Collection of bank mail/correspondence for customers. Any other activity as the Central Bank may prescribe” (Guideline on agent banking - CBK/pg/15, 2010). The guideline
states that “it shall be the responsibility of the institution to determine, based on agent risk assessment, which services a particular agent should provide”. Under the agency model banks manage and guarantee deposits but rely on other outlets for front office operations where they have no presence.

2.10.4 Agent Operations

According to the CBK guideline (2010) “no contract between an institution and an agent shall be exclusive. An agent may provide services for agent banking to multiple institutions provided that the agent has separate contracts for the provision of such services with each institution and provided further that the agent has the capacity to manage the transactions for the different institutions”. The CBK guideline gives “the Board of Directors of each institution the responsibility for formulating policies, procedures and guidelines which ensure that; Credible agents are identified, Risks associated with agent banking are properly identified, documented and mitigated, Agent activities are constantly monitored to ensure compliance with the Banking Act, the CBK Guideline and the agency contract”.

“Every institution seeking to conduct banking business through an agent shall apply and obtain the prior written approval of the Central Bank before commencing agent banking business. The approval of applications for agent banking business by the Central Bank shall be carried out in two phases as provided in the Guideline and will include:- Agent network approval and Specific agent approval. In addition to the above information, the Applicant shall submit the institution’s delivery channel strategy and how agents fit in this strategy. A feasibility study of the global view of future operations and development of the agent business for a minimum period of three years from the date of the application a business strategy for agent banking.

For each agent the Institution would want to appoint as an agent, “a bankers cheque of Kshs.1, 000/= per agent or outlet is payable to the Central Bank of Kenya, being the approval fees. An agent approval granted by the Central Bank shall be valid for one year and may be renewed as provided for in the Guideline”. The guideline shows that “if an institution fails to pay the prescribed fees within ninety days after the end of the financial year, its agent renewal application shall be declined” (The CBK Guideline on agent banking, 2010).
2.10.5 Legal and Regulatory Challenges

According to Porter, M. (1980) “the more limited the wholesale or retail channels for a product are and the more existing competitors have these tied up, obviously the tougher the entry into the industry will be. Existing competitors may have ties with channels based on long relationships, high-quality service, or even exclusive relationships in which the channel is solely identified with a particular manufacturer. Sometimes this barrier to entry is so high that to surmount it a new firm must create an entirely new distribution channel, as Timex did in the watch industry.”

Michael Porter (1980) actually identified six major sources of barriers to entry into an industry. These included: Economies of scale, Product differentiation, Capital requirements, Switching costs, Access to distribution channels, Cost disadvantages independent of sales. Such barriers in the financial services sector could spell doom for those banks that would want to expand or penetrate the rural and peri-urban markets. The CBK, in a bid to encourage financial freedom to the majority of Kenyans, included the clause that an agent may provide services for agent banking to multiple institutions provided that the agent has separate contracts for the provision of such services with each institution and provided further that the agent has the capacity to manage the transactions for the different institutions. (The Guideline on agent banking, 2010)

In addition to offering liberty to agents for representing multiple institutions, CBK offers the guidelines for appointing such agents. CBK assesses all agents for suitability before being used by any bank. The agent is assessed for existing well-established commercial activity which has been operational for at least eighteen months immediately preceding the date of the suitability assessment, a deficient, doubtful or non-performing borrower by an institution in the last 18 months preceding the date of signing the contract. That status shall be maintained for the duration of the contract. In addition, appropriate physical infrastructure and human resources to be able to provide the services with the necessary degree of efficiency and security. CBK gives details of the prerequisites for the assessment of agents. The suitability of a corporate entity, sole proprietor, partners or officers of a corporate entity, shall have regarded, inter alia: Negative information in possession of credit reference bureaus or gathered from other sources, Any criminal record in matters relating to finance, fraud, honesty or integrity, Reputation (based on references from at least two people of good social standing hailing from the same locality...
as the person and who has known the person for at least three years), Business or work experience, Sources of funds, the business track record of the entity in the last three years where applicable, any other matter which negatively or positively impacts on the person.

An entity may only remain as an agent for a period of one year and has to be renewed on an annual basis. According to the CBK guideline “an agent approval granted by the Central Bank is for one year and may be renewed and if an institution fails to pay the prescribed fees within ninety days after the end of the financial year, its agent renewal application shall be declined. The above conditions are viewed very stringent and very restrictive by many. With this in mind, Geoffrey Irungu quotes the ABC Bank chief executive Shamaz Savani as saying: “The stringent conditions are to ensure customer protection and to build customer confidence in the model and therefore, they are very welcome. Some of the rules may be reviewed once the model is accepted and risks are clearly understood and mitigated. Overall, I feel it is a good start and it is better to be stringent at the beginning as the models develop themselves in Kenya.

2.10.6 Agent Banking as Penetration Strategy

The guideline to agent banking permits banking institutions to use a number of organizations and entities as agents. These organizations include: Limited liability companies, Sole proprietorships, Partnerships, Societies, Cooperative societies, State corporations, Trusts, Public entities, and any other entity which the Central Bank may prescribe. Although the above list may be extensive there are, however, other organisations that may not be granted the agency. These organizations may include any entity which is faith-based or not-for-profit, a non-governmental organization, an educational institution, forex bureau or any other entity which, under any applicable law is not allowed to carry on profit-making business. (The Guideline on agent banking - CBK/pg15, 2010). According to the Business Daily (May 3, 2010), the introduction of agency banking is meant to expand access to financial services, especially in rural areas where it has been expensive for banks to maintain a presence, owing to smaller volumes. Furthermore, as reported in the same Business Daily agency banking is expected to boost the current penetration rate of banking services, estimated at 27 per cent.
2.10.7 Agency Banking as Service Provision

The convenience of access to banking services and the extended hours that the agencies work has been the most attractive features to the customer (as most agencies work between 8am up to 8pm). The rural population especially has heartily welcomed this idea since they have had to sometimes go through vexing experiences to access banking services due to the poor road infrastructure and high costs. Banks too have benefited a great deal at a time when most banks are working towards cost management. Huge savings on cost of construction of bank premises and leasing costs when banks are using the Agency premises. Human Resource expenses have reduced. The banks do not have to employ new staff to manage the agency and the cost of training if any is to the bare minimum. Savings on equipment like furniture and computers. (Channels for banking in Kenya, 2012). The bank must address the challenges that are posed by having agent banking while at the same time taking advantage of all the benefits of having this channel of banking. Agent Banking may eventually lead to financial inclusion in the countries where it has been adopted, (Channels for banking in Kenya, 2012).

2.10.8 The Agent's Predicament

At micro level the banking retail entity faces a lot of challenges from the environment. In a bid to counter negative environmental conditions, the retailers, according to McDonald and Tideman (1993), tries to match the wants of his customers with the capabilities of his company within a vast market place that is subject to all manner of influences beyond his control. The external factors include competition, Government policies and actions, Changing social patterns and pressures, Changing fashions, Changing technology, Cultural traditions

2.11 Conceptual Framework

The researcher conceptualizes the adoption of agency banking to be the dependent variable dependent on variables such as relative advantage, complexity of use, personal factors and awareness herein identified as independent variables. The smooth relationship between the variables is expected to be interrupted by the environmental factors such as government policy and technological advancement which are conceptualized as intervening variables in this paper (see figure 2.1 below for clarity)
Figure 2.11 Conceptual Framework

Independent Variables

**Relative Advantage**
- Available services
- Convenience and accessible
- Speed of service and availability
- Complexity of use
- Revenue Vs Cost (Affordability)

**Complexity**
- Difficulty in using services
- Difficulty in acquiring agency license
- Literacy levels on agency banking

**Personal Factors**
- Age of users
- Social class
- Educational levels
- Attitude of users

**Awareness**
- Agency banking awareness through media
- Services offered awareness
- Increased awareness through promotions

**Dependent Variable**
- Adoption of Agency Banking
  - Increased agents
  - Increased use of Agent banking
  - Increased awareness
  - Increased income for banks

**Intervening Variable**
- Government policy
- Technology

Source: (Researcher, 2012)
CHAPTER THREE

Research methodology

3.1 Introduction
This chapter contains the design used in this research study, target population, sampling design (sample size determination, sampling procedure) data collection procedure, data collection instrument, validity and reliability of research instrument, administration of the instrument procedure and data analysis.

3.2 Research Design
This study adopted the descriptive survey design. Descriptive surveys are designed to measure the characteristics of a particular population, either at a fixed point in time, or comparatively over time (Gay, 2004). The design was considered appropriate for the study because according to Kothari (2003) survey was concerned with describing, recording, analyzing, and reporting conditions that exist or existed. Gay (2004) argues that survey method was widely used to obtain data useful in evaluating present practices and in providing basis for decisions.

3.3 Target Population
The target population was all the agency banks operating in the central business district of Nyeri town. According to the Municipal Council records for the year 2013, the licensed agency operators were 42 with an estimated number of employees being 350. for the purpose of this study, no sampling was done and all the 42 agencies were engaged in this study.

Table 3.1 Target Population

<table>
<thead>
<tr>
<th>Title</th>
<th>Population</th>
<th>The Active Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya Commercial Bank Agents</td>
<td>27</td>
<td>8</td>
</tr>
<tr>
<td>Cooperative Bank Agents</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td>Equity Bank Limited Agents</td>
<td>96</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>141</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>

Source: Researcher, 2012
3.4 Data Collection Instruments
The questionnaires were chosen as they most appropriate tool for collecting data from the respondents. Most of the questions were closed ended to facilitate data processing and analysis. Questionnaires are considered convenient, less costly and covers many respondents at the same time (Kothari, 2004).

3.5 Data Analysis
The collected data was summarised processed and analysed statistically. Specifically, inferential statistics was applied to obtain the extent to which each parameter significantly influenced the dependent variable. The researcher used statistical package for social sciences (SPSS) to obtain analysed results which were interpreted as discussed in chapter four.

3.6 Data Presentation
Both quantitative and Qualitative data was collected and analysed for the purpose of obtaining the research her findings and conclusion. For easy interpretation and understanding of the research output, tables and charts were used.
CHAPTER FOUR

Data Analysis and Interpretation

4.1 Introduction
The chapter presents the research results as captured by the data collection instrument. The use of tables and charts was found to be useful in illustrating the research output, outcomes and in the process of interpreting the findings. In circumstances in which they apply, percentages shows the extent to which the respondents agreed or disagreed with the propositions advanced as per the questionnaire. In this chapter, both quantitative and qualitative analysis and results are presented.

4.2 Data Analysis and results
4.2.1 Response Rate
In this study, the response rate was evaluated where it was found that out of 42 respondents issued with questionnaires, 40 were duly completed and forwarded for processing. This constituted 95.2% response rate which was considered a good enough to proceed with data analysis. This is far above what is recommended by Kotler et al (2008)

4.3 Bio – Data and General Information
This section contains personal information about the respondent as below.

4.3.1. Category of those Operating the Agency Units
In this study, it was necessary to examine who actually operated the agency shop between the business owner and the employees. The results of this aspect were as shown below.

Table 4.1 Which category Best Describes your Position.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Owner</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Employee</td>
<td>28</td>
<td>69</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Research 2012)
From the table above, majority of those who operated the agency shops were actually employees (69%) while the others were the business owners (31%). Therefore, the owners of the agency units are usually engaged elsewhere or operate other business units and hence recruit employees, mostly young ladies, to operate the agency business.

4.3.2 Composition of the banks Engaged in Agency Banking

Table 4.2 Composition of Agency Banking

<table>
<thead>
<tr>
<th>Type of Banks</th>
<th>No. of Shops</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>KBC bank</td>
<td>6</td>
<td>16</td>
</tr>
<tr>
<td>Cooperative Bank</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Equity</td>
<td>29</td>
<td>72</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Research, 2012)

From the table above, most of the agency units were permitted by the equity bank (72%) while the other two operated very few agency units; KCB with 16% and Cooperative bank with 12% share the agency market.

4.3.3 Age of the Respondents

In this study, the age of the respondents was examined to establish which age-bracket constituted majority of those engaged in the study. The table below summarized the respective categories of the ages.

Table 4.3 Age Brackets of the Respondents

The researcher sought to estimate the percentage of the respondents in each age bracket. The result was summarized as shown in the table below.

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 20 yrs</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>21-30 yrs</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>31-40 yrs</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>&gt; 41 yrs</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Research 2012)
From the above data, majority of the respondents were in the age between 21 to 30 years, 12% below the age of 20 years, 23% were between 31 to 40 years while 15% were over 41 years of age.

**Fig 4.1 Ages**

Image of a pie chart showing age brackets.

Source: Research, 2012

### 4.3.4 Frequency of Agency Service Banking.

The respondents were asked to indicate how often they transacted the agency service banking given the options of daily, weekly, monthly and quarterly.

**Fig. 4.2 Frequency of usage.**

Image of a pie chart showing frequency of usage.

Source: (Research 2012)
From the table above, on the issue of frequency of agency service banking, 53% of the respondents used it weekly, 32% used it daily and 12% used it monthly. Therefore the study found that most customers used the agency banking weekly as opposed the daily or quarterly.

4.3.5 Opinion Regarding Relative Advantage from Agency Banking

In this study, the respondents were required to simply state yes or no to whether agents believed customers get relative advantage from agent banking compared to the traditional banking system.

Fig. 4.3 Opinion Regarding Agency Banking

Agent banking

Source: (Research 2012)

As observed from the table above, 93% of the respondents believed that agency banking offered relative advantage to the customers as they embrace it. This translates into pointing out that agency banking was leveraging the services of the customers compared to the traditional banking system.
4.3.6 Opinion of Convenience for the Agency Banking.
The study sought to find out whether the agency banking offered convenience to its users compared to the traditional banking methods. The research output was as shown below:

Fig. 4.4 Convenience.

From the data above, 41% and 53% of the respondents strongly agreed and agreed, respectively, that agency banking provided convenience advantage to its customers. However, 2% were not sure while only 4% disagreed, thus the study established that agency banking offered convenience to its users and hence the need to enhance its adoption.

4.3.7 Accessibility of Funds Using Agency Banking
The respondents were asked if they considered agency banking to offer the relative advantage of accessibility of funds by its customers compared to the traditional banking system. The results were displayed as shown below:-
Table 4.4 Agency banking Provides Relative Advantage of Accessibility of Funds

<table>
<thead>
<tr>
<th>Comments</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>14</td>
<td>36</td>
</tr>
<tr>
<td>Agree</td>
<td>16</td>
<td>41</td>
</tr>
<tr>
<td>Neither</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Disagree</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Research 2012)

As shown in the table above, 36% of the respondents strongly agreed that agency banking offered relative advantage in accessibility of the funds to its customers. Similarly, 41% agreed but 15% disagreed with 8% strongly disagreeing.

Fig. 4.5 Banking Provides Relative Advantage

Source: (Research 2012)
4.3.8 Provision of Faster Service using Agency Banking

The study was extended to seek opinion of the respondents by asking them if they considered provision of faster service as a relative advantage offered by the agency banking. The research results were as shown below

Fig. 4.6 Speed of Service.

![Speed of Service](image)

Source: (Research 2012)

As evidenced by the data above, an overwhelming 43% and 52% of the respondents strongly agreed and agreed, respectively, that agency banking offered faster service to its customers compared to the traditional banking system. However, 5% disagreed, this means that agency banking provided faster services to the customers which is a relative advantage that supports its adoption across the country.

4.3.9 Opinions Regarding whether Agency Banking is Expensive

The study sought to establish whether the respondents considered agency banking service as an expensive product. The outcome as analysed from the data was as shown below:-
Table 4.5 Agency banking Service is Expensive

<table>
<thead>
<tr>
<th>Comments</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Neither</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Disagree</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>13</td>
<td>33</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Research 2012)

From the table above, only 8% and 22% of the respondents strongly agreed and agreed respectively, that agency banking was perceived to be expensive. In this respect, 12% were neutral, 25% disagreed with 33% strongly disagreeing.

It follows, therefore, that agency banking was perceived by the majority as not being expensive and hence this factor enhanced its adoption by the financial institutions.

4.3.10 Aspect of Complexity of the Agency Banking

In this study, the respondents were asked to give their opinion regarding whether they considered agency banking as complex service.

Fig. 4.7 Complexity of the Service

Source: (Research 2012)
As noted in the figure above, 25% and 35% of the respondents strongly agreed and agreed respectively, that agency banking service was complex. However, 7% were not sure, 23% disagreed while 10% strongly disagreed, it was then deducted that majority of the consumers viewed agency banking as a complex service which in turn affected the rate of its adoption by the members of the general public.

4.3.11 Simplicity of the Agency Banking Service.
The study was extended to find out if the respondents considered agency banking as a simple service to be undertaken by the common person, including the rural uneducated banking population.

Table 4.6 Can the Agency Banking Process be considered as Simple

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>26</td>
</tr>
<tr>
<td>Neither</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Disagree</td>
<td>9</td>
<td>22</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Research 2012)

From the table above, 16% and 26% of the respondents considered agency banking process is a simple service. However, 5% were not sure, 22% disagreed and 31% strongly disagreed. From the analysis above, the study established that majority of the respondents disagreed that agency banking service was simple as advocated by the financial service providers.

4.3.11 Obtaining an Agency License
The perception of the respondents regarding how complex or easy it was to obtain a licence from the relevant authority was surveyed. The opinion results were as shown below. It is a lengthy process to obtain an agency Licence.
From the above figure, 43% of the respondents indicated that obtaining an agency licence was a complex process although 57% indicated it was not. This means obtaining agency banking licence was not viewed as a lengthy or complex process by majority of the respondents. It can be pointed out that obtaining a licence to operate was found not to be a strong factor in influencing the adoption rate of the agency banking.

4.3.12 Customer’s Attitudes towards Agency Banking

This study examined the customer’s attitudes towards the entire agency banking process in terms of being positive about it or having a negative attitude. The respondents results were summarized as shown below:-

Table 4.7 Comment of your attitude towards Agency Banking

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Positive</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Positive</td>
<td>16</td>
<td>40</td>
</tr>
<tr>
<td>Not sure</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Fairly positive</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Not positive</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Research 2012)
As evidenced from the table above, 23% of the respondents had a very positive attitude towards agency banking and so were 40% who were also positive about it. However, 12% were not sure, 15% were fairly positive about it and 10% were not positive in any way towards agency banking service. From the above figures, the study observed that majority of the respondents had high positive attitude towards the services of the agency banking. To this end, such positive attitude by the members of the public significantly influenced the adoption rate of the agency banking in the areas covered by the research.

4.3.13 Age factor in Adopting Agency Banking Systems

The respondents were asked if they considered age as an influencing factor in adopting the agency banking service. The outcome was as shown below.

Is age a factor influencing Adoption of Agency Banking?

![Age Factor](image)

Source: (Research 2012)

As noted from the percentages above, age factor was found to be a significant factor that affected the adoption of the agency banking service in Nyeri Central District.

4.3.14 Social Class Customers as a factor

The study sought to establish if the customer’s social class was an influencing factor towards adopting agency banking across the board. The concept of using smart card even at the supermarkets in the agency points was generally perceived to be for the well-to-do in the society. The output of the study revealed the following
Table 4.8 Customer Social Class in an Influencing Factor

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Agree</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td>Neither</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Disagree</td>
<td>7</td>
<td>18</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: (Research 2012)

From the analysed table, 25% and 43% of the respondents strongly agreed and agreed respectively, that customer's social class was an influencing factor in the process of adopting the agency banking. However, 5% were not sure, 18% disagreed and 10% strongly disagreed.

Fig. 4.10 Social Class

![Social Class Chart]

Source: (Research 2012)
4.3.15 Education are a Factor in Adopting Agency Banking

The study further examined the extent to which education was a factor influencing adoption of the agency banking. Although the agency transactions are relatively simple to understand and apply, some people still perceive it as a technological process that favours the educated and more so those with basic IT skills. This aspect was studied where the results were as tabulated below.

Table 4.9 Education as an Influencing Factor

<table>
<thead>
<tr>
<th>Comment</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>11</td>
<td>28</td>
</tr>
<tr>
<td>Agree</td>
<td>19</td>
<td>47</td>
</tr>
<tr>
<td>Neither</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Disagree</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Source: (Research 2012)*

From the table above, 28% of the respondents strongly agreed that education was a factor influencing adoption of the agency banking. Similarly, 47% agreed although 10% were not sure. However, 12% disagreed and 3% strongly disagreed. From the breakdown above, majority of the targeted population agreed that education level among the users of the agency banking was a strongly factor influencing its adoption in the areas covered by the study.
4.3.16 Sources of Awareness About Agency Banking

It was considered important to establish how the respondents become ware of the agency banking services from the service providers such as KCB.

Source: (Research 2012)
As noted from the figures above, 28% of the respondents become aware of the agency banking service through the regular television and radio messages. In addition, 22% become aware through bank leaflets and advertisements. Another 7% become aware through newspapers and magazines. The rest, 43% become aware through words of mouth. Thus it was found that the major sources of awareness about the agency banking was use of words of mouth, television/radio and use of leaflets advertisement.

4.3.17 Level of Public Awareness about Agency Banking

In this study, the level of awareness was examined from the respondent’s point of view. Respondents were asked their opinion regarding whether most of the members of the public were aware of the service.

Table 4.10 Members of the Public are Aware of Agency Banking

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very aware</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Aware</td>
<td>16</td>
<td>40</td>
</tr>
<tr>
<td>Not sure</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Fairly aware</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Not aware</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Research 2012)

From the table above, 25% of the respondents were very much aware of the agency services. Another 40% were aware although 5% were not sure. However, 20% were fairly aware but 10% were not aware of the agency banking according to the respondents.
Therefore the study found that members of the public were duly aware of the existence and operation of the agency services offered by the commercial banks.

4.3.18 Knowledge of the Different Services Offered.
A number of services are packaged in the provision of agency banking such as transfer of money and checking of bank balances. The opinion of the respondents was sought regarding the knowledge of the variety of agency services. Are customers aware of the full range of services offered?

Source: (Research 2012)
It was found that most of the commercial banks customers were aware of the different services offered within the agency banking package such as money transfer, payment for bills, checking balances and seeking loans or overdrafts.

4.3.19 Level of Marketing done to Promote Agent Banking

The study sought to find out the opinion of the respondents regarding whether sufficient marketing was undertaken to promote agency banking. Marketing is meant to popularize the agency service including informing the current and potential customers about the merits of the service.

Table 4.11 Enough Marketing is done to Promote the Services

<table>
<thead>
<tr>
<th>Comment</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>12</td>
<td>30</td>
</tr>
<tr>
<td>Agree</td>
<td>17</td>
<td>43</td>
</tr>
<tr>
<td>Neither</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>4</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: (Research 2012)

As observed from the table above, 30% and 43% of the respondents strongly agreed and agreed respectively, that enough marketing was done by the service provider to promote the agency banking. It was noted that 3% were not sure, 15% disagreed and 10% strongly disagreed.

Fig. 4.15 Level of Marketing

Source: (Research 2012)
Thus the study found that significant level of marketing was done by the commercial to market the services and products of the agency banking in the local market.

4.4 Qualitative Analysis and Results
Agency banking has enabled banking to be well understood especially in the rural areas where a significant proportion considers banks as financial institutions for the well to do people. From the results obtained from the respondents, it was noticeable that agency banking offered relative advantage to the customer’s from a number of fronts. However, it was faced by a number of challenges at the acceptance level. Among the complexity challenges revealed during the study period was the process of acquiring the agency permit and clearance. One must have operated as an honest, reputable person of high integrity with over three years of business experience. Literacy skills together with interpersonal skills are relevant in this field. Engaging trusted attendants is critical in a business involving large sums of money.

Inadequate marketing was a common challenge in the process of adopting the agency services. Both the banks and the agents had not done enough to win the hearts and minds of those who are still undecided or are not aware of the service. The current perception is that it is a service for some class of people especially the urban traders, brokers and educated class transferring money from one point to another.

To a significant number of members of the public, there is no link between Mpesa services, agency banking and money in a bank’s account. It is as if it is a parallel line of financial service that can wait or be substituted by the customers. The advertisements in circulation are not simple enough to address the knowledge gap with the current and potential customers.

The adoption process or rate of adoption was measured using increased registration of upcoming agents, increased frequency of customer’s usage and increased number of new customers registering for the service.
CHAPTER FIVE

Summary of Findings, Conclusion and Recommendations

5.1 Introduction
In this chapter, three areas are covered that presents what was found from examining the major challenges affecting the adoption of agency banking in Nyeri. This includes summary of the major findings, conclusion drawn and recommendations.

5.2 Summary of Major Findings
The study found that most of the agency banking services were operated by females where majority were between the ages of 21 to 30 years. Despite the gradual uptake and sluggish popularity of the agency service, it was evident that daily transactions were common among the agents involved in the study. The study further found that agency banking service offered significant and visible relative advantages compared to the traditional banking method.

One of the relative advantages noted from the respondent’s opinions was convenience. This was in comparison with traveling to the banking hall and queuing as is the practice in most banks. The advantage of easy accessibility of funds, even at the major supermarket was a major credit for the agency banking. In addition, the service offered faster services because the service points are many. In terms of whether the agency banking was expensive or not, the study found mixed responses where some viewed it as a bit as not expensive because it is like any other ATM service.

In regard to whether agency banking was considered as complex, the study found that it was considered relatively complex in the eyes of the respondents. This was largely attributed to lack of adequate information on the apart of the consumers. Although about half of the respondents indicated it was evident a simple banking process, it was evident that some viewed it as a technical process that will take time before it is fully internalized. In addition, the study found that obtaining a licence was a process but achievable to those who met the minimum conditions and terms set by the service provider.
One of the noticeable challenge towards full uptake and utilization of the agency banking was poor customer’s attitude towards the agency banking. Issues concerning money transactions outside the traditional banking environment have always bee observed slowly with caution. Similarly, the study found that age factor was a challenge in the process of adopting the agency banking service. Most of the people involved in money transactions are the adults of parents age who are slow in responding to technological advancements. The youth and learned people are flexible and quick to utilise the service, but their money traffic transactions were fewer compared to the elderly population.

Social class was another factor that was found to influence the uptake and adoption of the agency banking. Agency banking was viewed as a status symbol for the urban elite and the rich class of the society. Hence, a significant proportion of the members of the public were slow to accept and adopt it in their financial decisions. In the same vein, education factor influenced the rate of adoption and utilization of the agency services by a significant proportion of the population. The more one was education, the higher the prospects of adopting new technologies especially in the field of money transactions that is prone to cyber crime.

The level of awareness was found to be low among those engaged in the study. Although significant level of awareness was advanced through television and radio advertisement, the agency concept where financial, transactions can be undertaken through an ordinary counter of a shop is yet to be comprehended by many. In addition, there are multiple services that go along with the agency banking that many people are not aware of. The impact of marketing is yet to be realized in advancing the adoption, acceptance and popularity of the agency banking. The study found that marketing was a significant challenge in the entire adoption process of the agency banking. It was evident that enough marketing is yet to be done which would boost the level of awareness and acceptance of the service.

5.3 Conclusion
The research focused on the major factors affecting the adoption of agency banking within the Nyeri Central business district. The study concludes that agency banking offered relative advantage especially in relation to convenience, accessibility of funds, provision of faster services and in availing multiple services to the customers. In addition, there are advantages of affordability and provision of secret financial transactions outside
the busy banking halls. The study further concludes that venturing into the agency business is not very easy since it requires approval and clearance from the service provider and the local authority. The study conclude that customer’s attitudes are yet to improve towards accepting the technologically method is normal, better, convenient and easily accessible. In addition, the age factor was found to be a challenge because most of the people engaged in financial transactions of banking are of adult category. These people are often cautious and also to adopt upcoming technological breakthrough.

The study went further to conclude that social class factor significantly impacted negatively on the agency banking service. This was linked to the belief that agency banking was meant for the wealthy traders, risk takers in deals, employed urban residents and for the youth. Most rural parents developed a wait and see attitude towards the service. The level of education on the part of the consumers was concluded to be a barrier or a challenge towards adoption of the agency banking. It was easier for the educated people to accept and adopt the agency service unlike those with littler or minimal education such as below secondary schooling.

The level of public awareness of the principles and practices of agency banking was found to be a significant challenge. The ratings of the level of awareness regarding the merits and knowledge of the agency service were low, implying it was a challenge facing is adoption. In addition, other services linked with agency services were not known or popularised by the service providers.

Lastly the study concludes that inadequate marketing efforts were found to have contributed to the slow uptake and adoption of the agency banking service. Marketing informs, persuades and popularises a product or service to the extent that customers like it.

5.4 Recommendations
Following the study of challenges affecting the adoption of the agency banking a number of recommendations have been generated. While the banks are actively competing and pushing for the rapid spread of the agency banking services. The uptake and adoption will be slow but responsive. It is therefore recommended that:-
Both the agents and the banks devise a strategy of convincing the current users (customers) of the agency to talk to others about it. This can be done by taking one minute to talk and thank the current users and request them to inform others. Also the marketing staff of the commercial banks focuses their attention to population centres such as the schools, colleges, government institutions and attending other forums to popularize the service. Another recommendation is that the commercial banks should increase the commission payable to the agents in return for their added tasks of popularising and marketing the agency service and the banks should encourage large scale traders like wholesales like wholesalers and supermarkets to open a counter for agency banking. This would attract the attention of those engaged in frequent money transfer transactions such as the traders. Also more awareness campaigns and forums be prepared and funded to cater for those market segments not currently served by the agency services. Finally, bank should encourage big institutions such as colleges, hospitals, schools and market to open agency banking services.

5.5 Areas of Further Research

The field of finance, especially banking and money transfer requires to be examined and studied from a number of fronts. It is from this background that the following areas could be studied by other scholars and researchers. The first area is the impact of marketing on the rate of opening agency banking in the rural areas. Also evaluating applicable strategies meant to engage the unbanked rural population. Customer’s perception towards the potential risks associated with technology -based banking. Finally, assessing the personal factors influencing the rate of adoption to tele-banking among the traders.
REFERENCES

Australasian Consumers’ Association, Chippendale, NSW, Australia, no. 4, April, pp. 60-64, retrieved 14 October 2010, Expanded Academic database.

Browne, K (2010) Trolley psychology: choice unlocks the psychological secrets of the supermarket and shows you how to avoid spending more than you mean to’, Choice,


Appendix I: Questionnaire

Dear respondent,

This questionnaire has been designed to study the factors affecting the adoption of agent banking in Kenya a case of selected agents in Nyeri Central District as a requirement for the partial fulfilment of the award of a Master’s of Business Administration degree of Kenyatta University. The information you provide will help us understand the reasons why adoption of Agent banking is low. Your responses will be treated with utmost confidentiality. I request that you respond to the questions frankly and honestly.

Thank you very much for your time and cooperation.

Yours Sincerely,

Ephantus Mundia

SECTION A: Bio-Data and General Information

1. Name of respondent (optional).................................

2. Age of respondent..................................................

3. Which category describes your position within in the business?
   Business owner [ ]
   Employee [ ]

4. Which bank do you operate an agent business?
   KCB bank [ ]
   Co-operative bank [ ]
   Equity bank [ ]

5. How often do you transact the agency service banking?
   - Daily
   - Weekly
   - Monthly
   - Quarterly

6. If you have not transacted agent banking, state the reasons why:

--------------------------------------------------------------------------------------------------
7. Do you think that the relative advantage the customer gets from agent banking service can influence adoption?

- YES
- NO

8. To what extent do you think the following factors related to Relative advantage influence the adoption of agent banking? Tick appropriately.

<table>
<thead>
<tr>
<th>(a) Convenience</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Accessibility of funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Faster service</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Availability of variety of services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Agency banking services are expensive.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
9. Please read each statement and put a tick in a box which best represents your level of agreement or disagreement with a particular statement.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Using Agent banking is complex.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Using the Agent banking process is simple.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Getting an agency license is complex</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**SECTION D: Personal Factors**

10. What extent do you think the following factors related to personal factors influence the adoption of agent banking? Tick appropriately.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Customers have positive attitude to agent banking?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) Age is a factor influencing adoption of agency banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) Customer social class can influence adoption of agency banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d) Education level can influence the adoption of agency banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SECTION E: Awareness

11. If yes, where did you learn about Agency banking?

- [ ] Television/Radio
- [ ] Bank leaflets/Advertisements
- [ ] Newspapers/Magazines
- [ ] Words-of-mouth
- [ ] Others, please specify

12. Please read each statement and put a tick in a box which best represents your level of agreement or disagreement with a particular statement.

<table>
<thead>
<tr>
<th></th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Not sure</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Customers are aware of Agent banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Customers are aware of the services offered.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Enough marketing is done by banks to promote agent banking.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. What do you consider to be the main challenges of agent banking in Kenya?

__________________________________________________________
__________________________________________________________
__________________________________________________________

14. What services do customers mainly ask from you?

__________________________________________________________
__________________________________________________________
__________________________________________________________

# Appendix II: Work Plan

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTIVITY/MONTH</td>
<td>OCTOBER</td>
</tr>
<tr>
<td>PROJECT PROPOSAL WRITING</td>
<td></td>
</tr>
<tr>
<td>CORRECTIONS</td>
<td></td>
</tr>
<tr>
<td>DATA COLLECTION</td>
<td></td>
</tr>
<tr>
<td>DATA ANALYSIS</td>
<td></td>
</tr>
<tr>
<td>REPORT WRITING</td>
<td></td>
</tr>
<tr>
<td>FINALISATION OF REPORT</td>
<td></td>
</tr>
<tr>
<td>SUBMISSION OF REPORT</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix III: Budget

<table>
<thead>
<tr>
<th>BUDGET ITEM</th>
<th>TOTAL COST (Ksh)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MATERIALS</strong></td>
<td></td>
</tr>
<tr>
<td>Literature Survey/Photocopying</td>
<td>2500</td>
</tr>
<tr>
<td>Internal Services</td>
<td>6000</td>
</tr>
<tr>
<td><strong>SUB TOTAL</strong></td>
<td>8500</td>
</tr>
<tr>
<td><strong>OTHER COSTS</strong></td>
<td></td>
</tr>
<tr>
<td>Drafts Proposed Printing</td>
<td>2000</td>
</tr>
<tr>
<td>Binding</td>
<td>1500</td>
</tr>
<tr>
<td>Travel/ Accommodation</td>
<td>4000</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>4000</td>
</tr>
<tr>
<td>Telephone/ Internet</td>
<td>4000</td>
</tr>
<tr>
<td>Report Publication &amp; Photocopying</td>
<td>6000</td>
</tr>
<tr>
<td><strong>SUB TOTAL</strong></td>
<td>21,500</td>
</tr>
<tr>
<td>10% Contingency</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>TOTAL COST</strong></td>
<td><strong>33,000</strong></td>
</tr>
</tbody>
</table>